

Message Text

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INRE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02

PRS-01 AGR-10 AGRE-00 FDRE-00 /105 W
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O R 231516Z SEP 76

FM AMEMBASSY PARIS

TO DEPARTMENT OF TREASURY IMMEDIATE

SECSTATE WASHDC IMMEDIATE 5292

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

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USMISSION EC BRUSSELS

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PASS FEDERAL RESERVE AND COMMERCE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: THE BARRE PROGRAM

REFTEL PARIS 27833

1. FOLLOWING IS AN INFORMAL TRANSLATION OF HIGHLIGHTS OF THE ORIENTATION OF BUDGET POLICY, AID FOR THE DROUGHT, AND MEASURES TO REDRESS THE SOCIAL SECURITY SYSTEM BASED ON COMMUNISMS ISSUED YESTERDAY AT THE BARRE PRESS CONFERENCE. AS NOTED IN REFTEL, BARRE DID NOT DISCUSS THESE PROGRAMS IN HIS PRESS CONFERENCE NOR DID HE ELABORATE ON THEM IN ANY DETAIL IN HIS TV APPEARANCE LAST NIGHT. THEY ARE, HOWEVER, VERY IMPORTANT PARTS OF HIS PROGRAM.

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2. ORIENTATION OF BUDGET POLICY

2(A). OBJECTIVE: EQUILIBRIUM IN 1977

A. IN 1975 THE DEFICIT WAS 37.8 BILLION FRANCS. THE 1976 DEFICIT ESTIMATED AT 15 BILLION FRANCS. THESE DEFICITS WERE UNDERTAKEN TO ASSURE ECONOMIC RECOVERY AND REFLECT THE CONSEQUENCES OF THE ECONOMIC SUPPORT PROGRAM INITIATED IN SEPTEMBER 1975.

B. AS FOR 1976, THE ESTIMATED DEFICIT CORRESPONDS PRINCIPALLY TO FISCAL MEASURES TAKEN TO AID INVESTMENT (5.6 BILLION FRANCS), TO TAX RELIEF PROVIDED INDUSTRIAL AND COMMERCIAL FIRMS (2.2 BILLION FRANCS), AND THE PORTION OF TAX CREDITS UNDER INVESTMENT PROGRAMS USED IN 1976 (6.0 BILLION FRANCS).

2(B) IMPLEMENTATION:
MODERATION OF GOVERNMENT SPENDING:

A. IN THE 1976 SUPPLEMENTAL BUDGET ONLY URGENT UNFORESEEN OR IRREDUCIBLE EXPENDITURES WILL BE PRESENTED TO PARLIAMENT --E.G., FOR THE DROUGHT, THE VOLCANIC ERUPTIONS IN GUADELOUPE, PRESSING SOCIAL NEEDS, CREDITS WHICH ARE ESSENTIAL FOR ENTERPRISES AND PENSIONS.

B. THE 1977 BUDGET WILL CALL FOR AN INCREASE OF EXPENDITURES OF 13.7 PERCENT FOR THE BUDGET AS A WHOLE, OR 13.3 PERCENT EXCLUDING INTEREST ON THE PUBLIC DEBT, WHICH IS THE SAME ORDER OF MAGNITUDE FORESEEN FOR THE GROWTH OF GROSS INTERNAL PRODUCT (13.2 PERCENT) IN 1977.

THIS MODERATION REFLECTS:

(8) RETURN TO A NORMAL RATE OF NEW HIRING: 21,647 AGAINST 32,430 IN 1976 OF WHICH 15,000 HAD BEEN HIRED IN 1975.

(88) LIMITATION OF CURRENT ADMINISTRATIVE EXPENDITURES.

(888) STABILIZATION OF INVESTMENT CREDITS OF THE GENERAL BUDGET, EXCEPT FOR THE POST, TELEPHONE, AND TELEGRAPH PROGRAM, AND A REDUCTION OF UNCOVERED BALANCES OF TEMPORARY TRANSACTIONS FROM 1.1 BILLION TO 520 MILLION FRANCS.

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(8;) NEW STATE CREDITS DEMANDED WILL BE LIMITED EXCEPT AS COMPENSATED BY ECONOMIES, AND EXPENDITURES FOR STATE ENTERPRISES WILL BE SYSTEMATICALLY RE-EXAMINED DURING THE DEVELOPMENT OF THE BUDGET FOR 1978.

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PRS-01 AGR-10 AGRE-00 FDRE-00 /105 W

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O R 231516Z SEP 76

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BALANCING SPENDING AND REVENUE:

A. FOR 1976 IN ORDER TO NOT WORSEN THE ANTICIPATED DEFICIT, THE SUPPLEMENTAL BUDGET CALLS FOR ADDITIONAL REVENUES TOTALLING 14,780 MILLION FRANCS OF WHICH 3,880 MILLION WILL COME FROM INCREASED RECEIPTS ON EXISTING TAXES OWING TO A RISING LEVEL OF NATIONAL INCOME; 5,500 MILLION FROM INCOME TAX SURCHARGE, OF WHICH 1,100 MILLION WILL COME FROM THE 4 PERCENT SURCHARGE ON CORPORATE TAX; 1,020 MILLION FROM THE ADDITIONAL STAMP TAX ON AUTOMOBILES; 2,350 MILLION FROM ADDITIONAL TAXES RELATED TO THE INCREASED PRICE OF PETROLEUM PRODUCTS; 100 MILLION FROM THE TAX ON HIGH INCOME FARMERS; AND 1,500 MILLION FROM GOVERNMENT BONDS.

B. FOR 1977 PROPOSED EXPENDITURES TOTAL 333,330 MILLION FRANCS; RECEIPTS 334,100 MILLION FRANCS, FOR A SURPLUS OF
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770 MILLION FRANCS LESS OPERATIONS OF A TEMPORARY NATURE
TOTTALLING 520 MILLION FRANCS, FOR AN OVERALL SURPLUS OF 250
MILLION FRANCS.

PRIORITY PROGRAMS:

A. MILITARY BUDGET IN 1977 RELATED ON THE 1977-82 PROGRAM
APPROVED BY THE PARLIAMENT WILL TOTAL 58,412 MILLION FRANCS,
OR 17.52 PERCENT OF THE BUDGET COMPARED TO 17.06 PERCENT IN 1976.
IT REPRESENTS AN INCREASE OF MILITARY EXPENDITURES 4.3 PERCENT
GREATER THAN THE CIVIL BUDGET, EXCLUDING PUBLIC DEBT PAYMENTS.

B. AN INCREASE OF 11.3 PERCENT IN INFRASTRUCTURE EXPENDITURE
REPRESENTS, IN EFFECT, A STABILIZATION IN REAL TERMS BETWEEN
EXPENDITURES OF 63,914 MILLION FRANCS IN 1976 AND 77,131 MILLION
IN 1977. THE POST, TELEPHONE AND TELEGRAPH PROGRAM WILL HAVE AN
INCREASE FROM 18,351 MILLION FRANCS IN 1976 TO 24,600 MILLION
IN 1977, AN INCREASE OF 34 PERCENT.

C. THE 1977 BUDGET WILL INCLUDE A STRONG INCENTIVE FOR
ADDITIONAL INVESTMENT BY THE PRIVATE SECTOR BY A 1/2 PERCENT
INCREASE IN THE COEFFICIENT USED TO CALCULATE AMORTIZATION
OF CAPITAL GOODS PURCHASED IN 1977. THE COST OF THIS IS
ESTIMATED AT 2.21 BILLION FRANCS IN 1978.

3. EXCEPTIONAL AID TO AGRICULTURE VICTIMS OF THE DROUGHT:

THE PRESIDENT PROMISED THAT TOTAL AGRICULTURE INCOME WOULD
BE MAINTAINED AT THE SAME LEVEL AS IN 1975. THE PRELIMINARY
MEASURES WHICH WERE TAKEN BY THE COUNCIL OF MINISTERS ON AUGUST
25, UNTIL THE EVOLUTION OF 1976 FARM INCOME COULD BE KNOWN
WITH PRECISION, ARE AS FOLLOWS:

A. GRANTING OF AN EXCEPTIONAL AID TO CATTLE BREEDERS
CALCULATED PER UNIT OF STOCK;

B. EXTENSION FROM FOUR TO SEVEN YEARS OF THE LENGTH OF
SPECIAL /DROUGHT VICTIM" LOANS ACCORDED BY THE CREDIT
AGRICOLE;

C. ASSUMPTION BY THE GOVERNMENT IN 1976 OF INTEREST CHARGES
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ON SPECIAL "YOUNG FARMER" LOANS IN THE MOST HEAVILY AFFLICTED
REGIONS.

ON THE BASIS OF THE CALCULATIONS BY INSEE SHOWING A LOSS
IN 1976 INCOME OF FF 5.6 BILLION WITH RESPECT TO 1975, AND IN
FUNCTION OF THE MOST RECENT ESTIMATES, THE GOVERNMENT HAS CARRIED
THE FIGURE TO SIX BILLION FRANCS. THE TOTAL AID OF SIX BILLION
FRANCS IS DEVIDED INTO TWO PARTS:

A SUM OF 5.5 BILLION FRANCS IS INCLUDED IN THE PRESENT RETRO-
ACTIVE FINANCE BILL FOR 1976 AND

A SUM OF 500 MILLION FRANCS WILL BE INCLUDED IN FUTURE BUDGETS.
AS CONCERNS THE AMOUNT OF FF 5.5 BILLION:

A. A SUM OF FF 983 MILLION WILL ASSURE THE FINANCING OF
MEASURES ALREADY TAKEN AT THE NATIONAL LEVEL SUCH AS THE
INTEREST CHARGES ON "YOUNG FARMERS' " LOANS, AND IT WILL ALSO
FINANCE SOME NEW MEASURES TO BE PUT INTO OPERATION, PRIMARILY
RELATING TO CATTLE BREEDING;

B. THE REMAINDER OF THE CREDITS (FF4,517 MILLION) WILL TAKE
THE FORM OF SUBSIDIES PAID DIRECTLY TO FARMERS. THESE WILL BE
APPORTIONED ON A DEPARTMENTAL BASIS, DEFINED ACCORDING TO THE
CRITERIA MEASURING THE INCIDENCE OF THE DROUGHT. THIS SUM WILL
INCLUDE THE FF 2,000 MILLION IN CREDITS TO CATTLE BREEDERS,
DECIDED ON AUGUST 25.

THE CREDITS WILL BE DISTRIBUTED AMONG FARMERS BY THE
DEPARTMENTAL AUTHORITIES INCOOPERATION WITH AGRICULTURAL
ORGANIZATIONS. COORDINATION AT THE REGIONAL LEVEL WILL
ASSURE INTERDEPARTMENTAL ACCORD. (MORE)

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O R 231516Z SEP 76
FM AMEMBASSY PARIS
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C. THE SUM OF FF 500 MILLION CORRESPONDS TO THE PREDICTED COST OF THE INTEREST REBATE ON SPECIAL DROUGHT LOANS WHICH WILL BE ACCORDED BY THE CREDIT AGRICOLE FOR A DURATION OF SEVEN YEARS. THIS PROGRAM WILL MEAN A SUPPLEMENTARY VOLUME OF OUTSTANDING LOANS NOT SUBJECT TO CREDIT CEILLINGS AT AN AMOUNT ESTIMATED TO BE 4 BILLION FRANCS. IN ORDER TO GIVE AID WITH THE SHORTEST POSSIBLE DELAY TO DROUGHT VICTIMS AWAITING THE SPECIAL DROUGHT LOANS, IT HAS BEEN DECIDED TO INCREASE FROM 1.0 TO 1.5 BILLION FRANCS THE AMOUNT OF EXCEPTIONAL SHORT-TERM LOANS NOT SUBJECT TO CREDIT CEILINGS.

A SEPCIAL SOLIDARITY EFFORT WILL BE ASKED OF THE AGRICULTURE SECTOR TO PAY FOR PART OF THIS SPECIAL AID TO DROUGHT VICTIMS IN THAT FARMERS WILL BE REQUIRED TO PAY AN EXCEPTIONAL TAX AT THE MAXIMUM RATE OF 0.5 PERCENT ON THEIR CUMULATIVE TURNOVER FOR 1975 AND 1976 IF IT EXCEEDS FF 800,000.

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4. MEASURES TO REDRESS THE SOCIAL SECURITY SYSTEM:

THE SOCIAL SECURITY FINANCIAL OUTLOOK IS DIFFICULT FOR 1977. THIS IS DUE TO A NUMBER OF REASONS: THE INCREASE OF THE CONSUMPTION OF MEDICINES, THE CONTINUED EXPANSION OF FAMILY PROTECTION, AND CARE FOR THE AGED. THESE ARE THE MAJOR REASONS INCREASING THE DEFICIT. THE GOVERNMENT DECIDED TO TAKE A NUMBER OF MEASURES TO HAVE AN IMMEDIATE EFFECT AS FLLWS:

A. ECONOMIES AMOUNTING TO ONE BILLION FRANCS WILL BE ACHIEVED BY THE FOLLOWING: A NUMBER OF MEDICINES SUCH AS LAXATIVES, STIMULANTS, AND YEASTS WILL NO LONGER BE REIMBURSED. REIMBURSEMENT FOR PARAMEDICAL SERVICES WILL BE LIMITED TO 65 PERCENT INSTEAD OF 75 PERCENT AS BEFORE. ONLY SERVICES OF NURSES AND MIDWIVES WILL CONTINUE TO BE REIMBURSED AT 75 PERCENT. SERVICES LIKE TRANSPORTATION BY AMBULANCE (FULLY REIMBURSED BEFORE) WILL BE SUBJECT TO A 30 PERCENT COST-SHARING BY THE INSURED. NOTE: MOST MEDICAL EXPENDITURES ARE SUBJECT TO A 30

PERCENT COST-SHARING BY THE INSURED (TICKET MODERATEUR). THIS DOES NOT CHANGE. FOR HEALTH CURES IN SPAS, THE ELIGIBILITY WILL BE RESTRICTED TO LOWER INCOME GROUPS (I.E., IT WILL BE MORE DIFFICULT TO GET A FREE OR SUBSIDIZED STAY IN A HEALTH RESORT). FINALLY, IN ORDER TO RECEIVE AN INCREASE IN OLD-AGE PENSION FOR A DEPENDENT WIFE, THE COMBINED INCOME OF THE COUPLE MUST BE BELOW A CERTAIN CEILING.

8. AT THE SAME TIME, THE GOVERNMENT INCREASES RECEIPTS BY AN INCREASE IN SOCIAL SECURITY CONTRIBUTIONS TO BE PAID BY EMPLOYERS AND EMPLOYEES. THUS, 0.7 PERCENT OF SALARIES BELOW THE CEILING WILL BE ADDED TO CONTRIBUTIONS OF WHICH 0.5 PERCENT GO TOWARD HEALTH INSURANCE AND 0.2 PERCENT GO TOWARD OLD-AGE INSURANCE. (AT PRESENT, THE CEILING SUBJECT TO CONTRIBUTION IS 3.160 FRANCS PER MONTH). THE INCOME FROM THIS MEASURE IS EXPECTED TO BE 6.1 BILLION FRANCS.

C. FINALLY, THE PROCEEDS OF THE INCREASE IN AUTOMOBILE TAX OF 1.2 BILLION FRANCS IN EARMARKED TOWARDS FINANCING THE DEFICIT OF SOCIAL SECURITY. ALTOGETHER, A TOTAL OF 8.3 BILLION FRANCS IN NEW RECEIPTS WILL THUS GO TO THE GENERAL REGIME OF SOCIAL SECURITY.
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D. OVER AND ABOVE THE IMMEDIATE MEASURES TO REDRESS THE SITUATION, IT REMAINS ESSENTIAL THAT EXPENDITURES IN RECEIPTS MUST BE BROUGHT IN LINE IN THE NEAR OR IMMEDIATE FUTURE. THEREFORE THE GOVERNMENT DECIDED TO REQUEST THE LABOR MINISTRY AND THE MINISTRY OF PUBLIC HEALTH TO START PROCEDURES PERMITTING THEM TO ACHIEVE THIS AIM IN CLOSE COOPERATION WITH THE ORGANIZATIONS CONCERNED. NEW MEASURES WHICH WILL ATTACK THE EVEIL AT THE ROOT WILL BE TAKEN BY THE GOVERNMENT NEXT SPRING.

5. WITH REFTEL THE ABOVE COMPLETES HIGHLIGHTS OF THE BARRE PROGRAM IN DOCUMENTS RELEASED BY GOF. PRESS AND OTHER REACTIONS AS WELL AS ANALYSIS OF PROGRAM AND BUDGET WILL BE SENT BY SEPTELS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT REFORM, BUDGETS, POLICIES, DISASTER RELIEF, PRESS CONFERENCES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976PARIS27889
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760359-0994
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760928/aaaaaxov.tel
Line Count: 375
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 TEL AVIV 27833
Review Action: RELEASED, APPROVED
Review Authority: cahillha
Review Comment: n/a
Review Content Flags:
Review Date: 04 AUG 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 AUG 2004 by oatisao>; APPROVED <07 DEC 2004 by cahillha>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE BARRE PROGRAM
TAGS: EFIN, FR, (BARRE, RAYMOND)
To: TRSY
STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006